



Investment and Finance Planning in Update 2018

**CA Water Plan Update 2018
Plenary Meeting
October 25, 2016**



Goals of Session

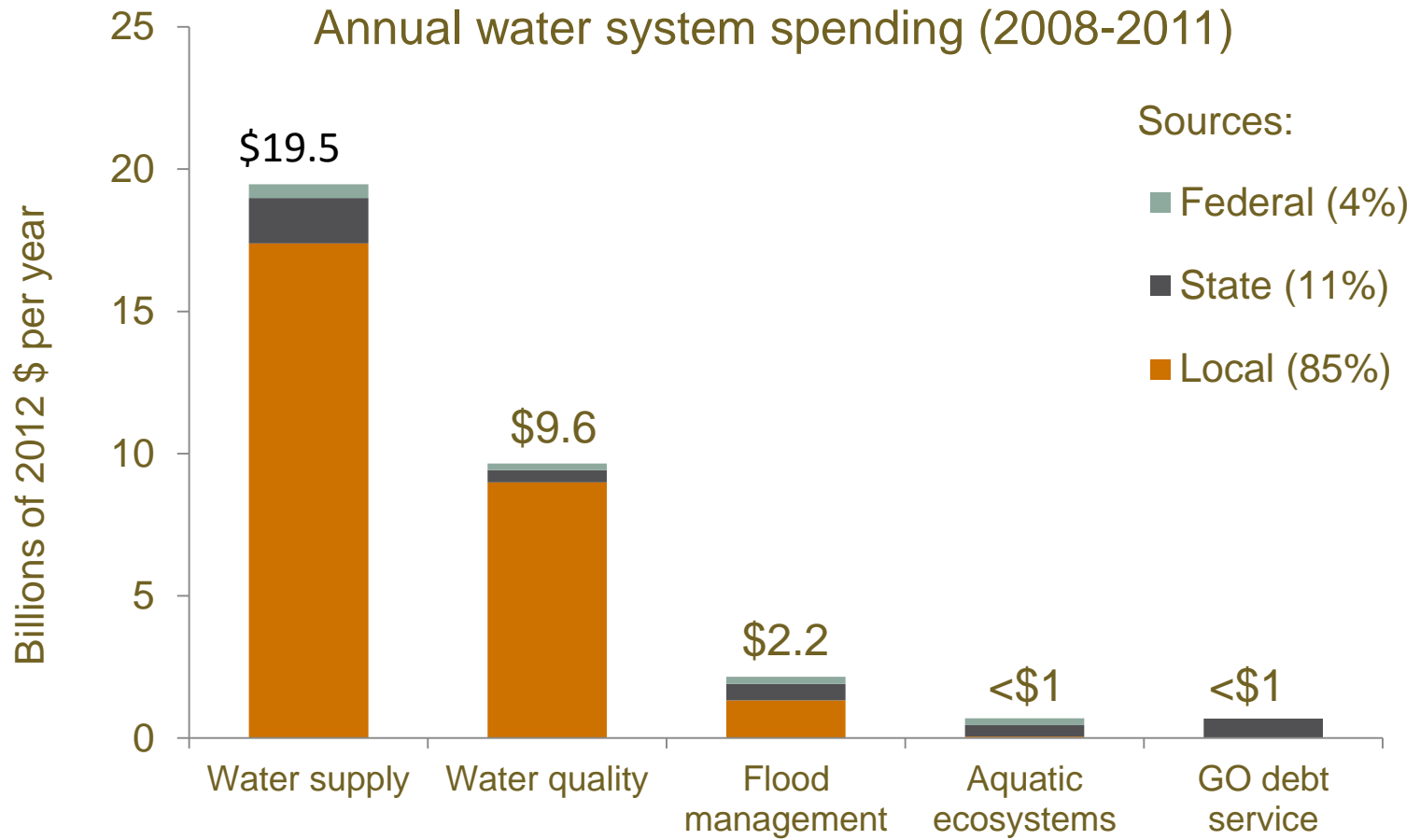
1. Shape finance conversation
2. Common understanding of big picture:
 - Lessons Learned from Update 2013
 - Historical practices & current trends
3. Learn from two innovative case studies
4. Discuss how Update 2018 will implement Action 10 of The Governor's Water Action Plan



Shaping the Conversation

1. State Water Management Faces Debilitating Finance Gaps
2. Governor's Water Action Plan Provides Finance Direction
3. Update 2013 Created Foundation
4. We Have made Progress (Case Studies)
5. What Update 2018 Will Do
6. How to Implement Action 10 (Tabletop Discussion)

Local Agencies Raise Most Revenues



Source: PPIC 2014

We Face Debilitating Funding Gaps

	Overall grade	Annual gap (\$ millions)
Urban water supply	Passing (mostly)	—
Urban wastewater	Passing (mostly)	—
Safe drinking water (small rural systems)	Failing	\$30–\$160
Flood protection	Failing	\$800–\$1,000
Stormwater management	Failing	\$500–\$800
Aquatic ecosystem management	Failing	\$400–\$700
Integrated management	On the brink	\$200–\$300

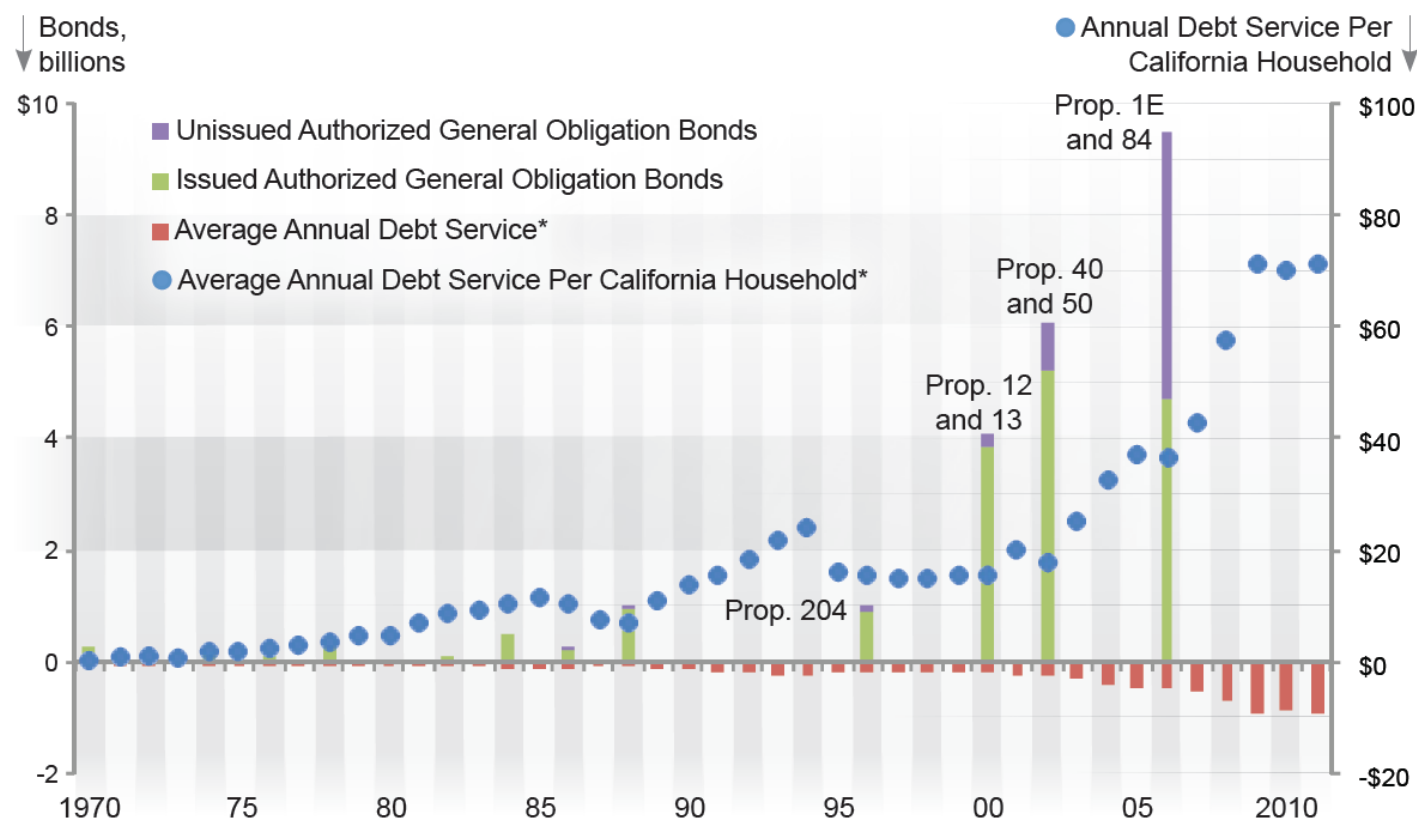
Total Annual Gap: \$2–\$3 Billion

Source: PPIC 2014

Update 2013 Findings

State GO Water Bonds Have Grown

Figure 7-5 General Obligation Water Bond History, 1970-2012



*Debt service is applicable to issued General Obligation bonds only. Data courtesy of the California Department of Finance.

Past GO Bond Investments: Relative to Current State Priorities

Past Investments Relative to Current CA Water Management Priorities

		Funding (\$ million)					
Historical Finance Categories	CA Water Action Plan	Prop. 204 1996	Prop. 13 2000	Prop. 50 2002	Prop. 84 2006	Prop. 1E 2006	Totals
Water Reliability	1. Make conservation a California way of life	\$60	\$105	\$200	\$180		\$545
	2. Increase regional self-reliance and integrated water management across all levels of government	\$60	\$478	\$855	\$1,000	\$300	\$2,693
	5. Manage and prepare for dry periods						\$0
	6. Expand water storage capacity and improve groundwater management	\$40	\$262	\$50			\$352
Water Quality and Ecosystem Restoration	4. Protect and restore important ecosystems	\$442	\$556	\$1,550	\$2,638		\$5,186
	7. Provide safe water for all communities	\$140	\$70	\$715	\$380		\$1,305
Flood Management	8. Increase flood protection	\$85	\$249	\$70	\$800	\$3,790	\$4,994
Delta Management and Operation	3. Achieve the co-equal goals for the Delta	\$168	\$250		\$325		\$743
	9. Increase operational and regulatory efficiency						\$0
	10. Identify sustainable and integrated financing opportunities				\$65		\$65
TOTALS		\$ 995	\$ 1,970	\$ 3,440	\$ 5,388	\$ 4,090	\$ 15,883

Figure 1 Uses of Proposition 1 Bond Funds

(In Millions)

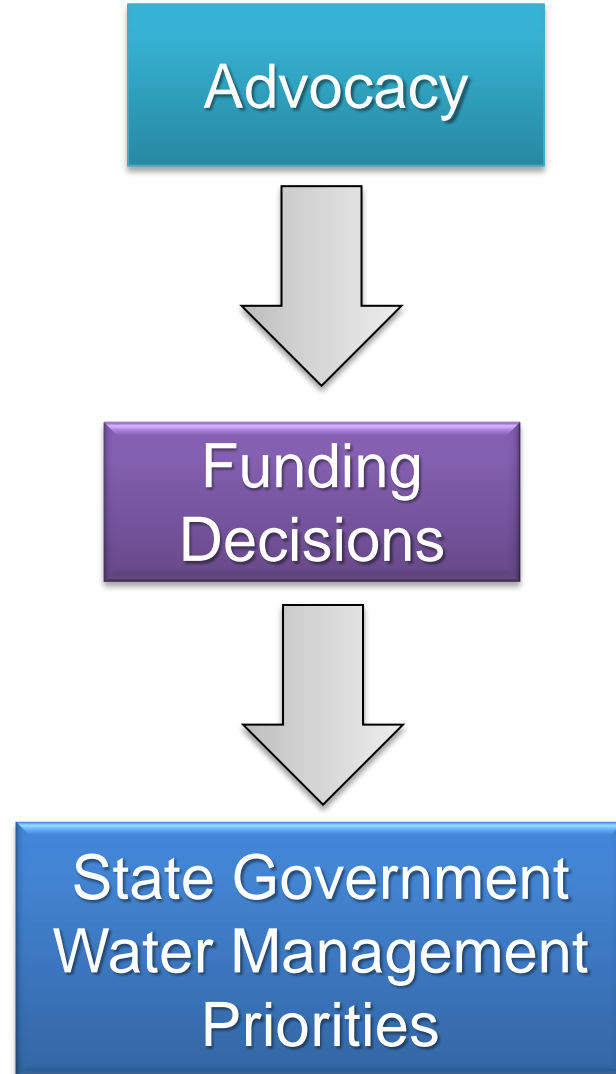
Water Supply	\$4,235
<ul style="list-style-type: none"> • Dams and groundwater storage—cost share associated with public benefits. • Regional projects to achieve multiple water-related improvements (includes conservation and capturing rainwater). • Water recycling, including desalination. 	\$2,700 810 725
Watershed Protection and Restoration	\$1,495
<ul style="list-style-type: none"> • Watershed restoration and habitat protection in designated areas around the state. • Certain state commitments for environmental restorations. • Restoration programs available to applicants statewide. • Projects to increase water flowing in rivers and streams. 	\$515 475 305 200
Improvements to Groundwater and Surface Water Quality	\$1,420
<ul style="list-style-type: none"> • Prevention and cleanup of groundwater pollution. • Drinking water projects for disadvantaged communities. • Wastewater treatment in small communities. • Local plans and projects to manage groundwater. 	\$800 260 260 100
Flood Protection	\$395
<ul style="list-style-type: none"> • Repairs and improvements to levees in the Delta. • Flood protection around the state. 	\$295 100
Total	\$7,545

Water Bond Relative to CA WAP Actions

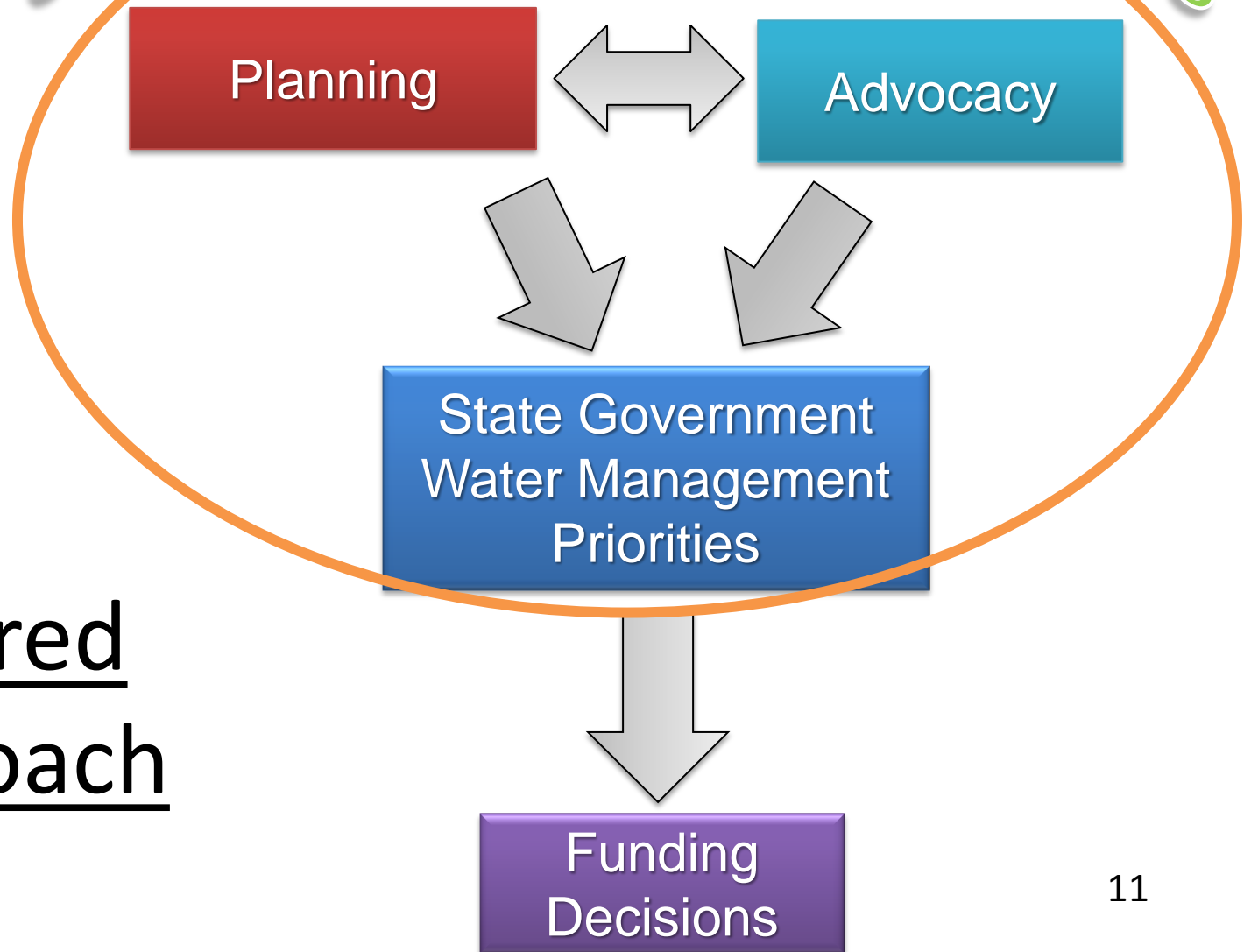
Historical Finance Categories	CA Water Action Plan	Prop 1
Water Reliability	1. Make conservation a California way of life	0.100
	2. Increase regional self-reliance and integrated water management across all levels of government	1.235
	5. Manage and prepare for dry periods	0
	6. Expand water storage capacity and improve groundwater management	2.800
Water Quality and Ecosystem Restoration	4. Protect and restore important ecosystems	1.4075
	7. Provide safe water for all communities	1.520
Flood Management	8. Increase flood protection (<i>\$295M to Delta, \$100M statewide</i>)	0.395
Delta Management and Operation	3. Achieve the co-equal goals for the Delta	0.0875
	9. Increase operational and regulatory efficiency	0
Sustainable Financing	10. Identify sustainable and integrated financing opportunities	0
	TOTAL	\$7.5 B

Need Paradigm Shift

Current Approach



Statewide Sustainability Planning



Desired
Approach

Focus of Water Plan Update 2018

Action 10 Governor's Water Action Plan

Recognizes:

- Finance complexities
- Inadequate base budgets
- Need for State alignment behind common outcomes
- Need to pivot from reactionary to proactive
- Prioritization is critical
- Need to cultivate stable reliable sources of funding

Focus of Water Plan Update 2018

Action 10 of Governor's Water Action Plan

Calls for:

- Removal of barriers to local and regional funding [of water management]
- Development of a water financing strategy
- Analysis of user and polluter fees

Update 2013

Builds a Foundation

Water Finance Alternatives Summary

Table 7-2 State and Local Water Management Revenue Sources

Revenue Source	Appropriate Uses	Feasibility	Key Tradeoffs	Application in California
General Fund	Activities that benefit the general public	Available each year, but subject to competing uses	Funds are limited	A common source of funding
General Obligation Bonds	Projects that benefit the general public	Commonly used	Subject to voter approval	Commonly used over the decade, but polls have shown reduced public support for large water bonds
Revenue Bonds	Projects where a dependable revenue stream is available	A standard method of financing	None	A typical method of financing for local and State projects
User Fees (includes contractually negotiated commodity charges)	Projects where direct beneficiaries are easily identified.	Potentially works well with clearly defined beneficiaries, less likely to work for projects with significant public benefits	Will focus projects to those with local scope which may undermine IWM efforts. May limit State's ability to increase fees and taxes to support other projects	State Water Project is an excellent example as over 90% of project cost will be repaid by direct beneficiaries (contractors).
Assessment Districts	Can be formed by majority vote, but must support local projects that do not provide a "general" public benefit. Water and storm water projects are generally allowed under assessment districts.	The State could coordinate with local agencies to establish assessment districts.	Assessment districts cannot be used to support general public benefits and, as such, will tend to focus on local projects.	1911 and 1913/1915 assessment districts are widely used by local agencies in California.

Update 2013

Builds a Foundation

Water Finance Alternatives Summary

Revenue Source	Appropriate Uses	Feasibility	Key Tradeoffs	Application in California
Utility User Tax	Earmarked for a special purpose or used as a general tax	Used by many cities and a few counties	Has to be approved by a ballot measure	Widely used by cities
Impact Fees	Used by local governments to charge new development for the additional cost imposed on existing public infrastructure	Impact fees are generally used in over 90% of local governments in California, thus there is limited opportunities for further expansion.	Deters new development	Widely used in California
Statewide Water Use Fee (Proposed in 2006 and 2011)	Would have been used for State water management activities	Failed to move forward in 2006 and 2011	Could affect local agencies' ability to generate local revenues	Would require a vote
Public Goods Charge	Could fund a variety of IWM activities	Was approved for electricity but sunset in 2011. Never has been tried with water.	Could affect local agencies' ability to generate local revenues	Not yet tried in California, would need a two-thirds vote
Mello-Roos Special Taxes	Areas with new development. It is possible to establish Community Facility Districts (CFDs) in other areas, but this requires a majority vote by residents to tax themselves.	CFDs are most feasible during strong housing markets when there is significant new development.	When housing markets and development slows, forming additional CFDs is difficult and there may be concerns with revenues to pay back existing bonds.	Recently used to finance the Bear River Levee Setback project in Yuba County
Private Investors	Local water projects that generate revenue	Typically have been used as part of design-build process	Interest rates are higher than public debt, and can't be used on State projects.	Limited to local projects
Private-Philanthropic	Traditionally has been used for ecosystem projects	Commonly used	Not a predictable revenue source	Widely used in California

Update 2013 Findings

Funding Barriers (Sampling)

- Lack of resources in small agencies to prepare funding applications.
- Difficulty raising matching funds for federal programs.
- Permitting and mitigation costs.
- Propositions 13 and 218.
- Assessment-zone boundaries.

Update 2013 Findings

Challenges (Sampling)



- Underfunding of monitoring, operations, maintenance, and environmental mitigation over the life of a project.
- Funds are not easily adapted to changing priorities.
- Legacy impacts no longer have responsible parties.

Update 2013 Findings

Finance Plan Attributes (Sampling)



- More coordinated and consistent funding approach across State government.
- Improve cost effectiveness, efficiencies, and accountability.
- Increase certainty of desired outcomes.
- Prioritization based on shared values

What We Have Done

Case Studies

- Statewide Flood Investment Planning
- Central Valley Flood Protection Plan



What Update 2018 Will Do

- Implement Action 10 of the Governor's Water Action Plan
- Set statewide water investment priorities
- Identify preferred financing methods
- Link State funding to planning priorities
- Measure and report on progress



Finance Planning Framework

1. Shared Intended Outcomes
2. Policy and Actions Assessments
3. Existing Funding
4. Funding Gaps
5. State Roles and Partnerships
6. Funding Demands
7. Effective Funding Mechanisms
8. Return on Investments



Tabletop Discussion

How Update 2018 will implement Action 10 of
the Governor's Water Action Plan